

A POSITIVE ALTERNATIVE TO LAYOFFS IN ECONOMIC DOWNTURNS

It is difficult to pick up a newspaper or listen to a business news broadcast, without being greeted with the news of another massive corporate layoff or cutback. The economy catches a chill and as a result the corporate world catches a profits "cold" and before long the pink slips begin to fly. We have come to accept this as the inevitable employment cycle. Is it any wonder that employees feel so little loyalty toward their employers?

On the other hand, corporations seem to have no alternatives. With the squeeze on profits and stockholders and analysts anxiously watching, company leaders feel that they must act quickly or bear the wrath of Wall Street. They understand that their response may in fact be a little shortsighted, but investors have short fuses when it comes to waiting patiently for the earnings statements to turn around. However, without viable alternatives, corporate executives seemed doomed to repeat the same pattern. Is there any alternative?

The answer is both "yes" and "no." In the short term, some cuts may be essential, but it is far better to do so by the use of a scalpel, rather than an axe. Why? Because your organization's long term future may well be on the line and decided by how you respond to the present economic downturn. Remember how, just very recently, most businesses were in a slightly different predicament? That's right. The problem was that we were all fighting over the labor pool, especially for experienced, stable, well-balanced employees who were likely to actually come in to work on Monday and Friday mornings.

Prepare yourself, because those days are likely to return with a vengeance later in near future. It is unlikely that the present economic woes will plague us much longer than a few more quarters. Then watch out! If you thought the market for qualified workers was tight before, it is likely to become much more so within a year. Between early retirements resulting from the present shakeout, both forced and voluntary, the large number of laid-off and terminated workers who have opted for entrepreneurship and the shortage of new workers, especially skilled, available to enter the workforce in the next few years, virtually all employers may soon be singing the employee blues.

What does this have to do with your actions today? Plenty! Today those losing their jobs are as likely to be well trained and highly paid individuals with years of experience in the organization, as they are to be low skilled entry level workers. Cutting them makes a large and immediate difference in the bottom line, that is, once the charge-off for their severance has been taken. However, will they once again be needed before their termination cost has been absorbed? Will they soon return as independent contractors at yet higher costs?

Worse yet, when soon they are again needed, will they be available at all? If you will recall, the unprecedented ten plus year economic boom we have enjoyed did not begin overnight. It began slowly, allowing the necessary time to ramp up employment over many years. If the present economic downturn ends as quickly as expected, there will be little breathing time available before demand and output boom once again. Those companies that are shedding their people wholesale today may find themselves at an extreme competitive disadvantage tomorrow.

The ultimate medium and long term cost of layoffs for these organizations may well be extreme. For some companies, it may relegate them to the back of the pack when their markets once again heat up. Without the core staff necessary to respond to quickly rising demand and customers who are seeking innovative solutions to achieve increased efficiency, lower costs and a better "mouse trap", companies that have cut not only fat, but bone and muscle from their organizations in 2001 and early 2002, will find their competitors devouring their market share. In today's very competitive global marketplace, regaining market share by making up ground lost due to insufficient staff, will prove impossible for many companies. Many former market leaders will find themselves "delled" with little chance for a speedy recovery.

One more very important aspect needs to be carefully considered. Today's "right-sizing" is heavily targeting older, more senior employees. They obviously cost more in salary and in benefits such as health insurance, thus cutting them makes a larger impact on the bottom line. Do not forget, however, that the younger workers are anxiously watching and taking careful note. They are also asking themselves, "Will this be my fate in ten or fifteen years when I am forty-five or fifty-five and the economy slows?"

Many corporations are sending a very clear message to younger employees by their treatment of the more senior people. The younger employees may not leave now, when the economy is slow, but once the turnaround occurs, many of them will decide its is time to create for themselves a more secure future.

If you shouldn't be chopping, but sales and profits are sagging, what should you do? INNOVATE! It is amazing what cost reductions can be quickly experienced and what market share gains are possible when we become innovators and teach each person within our organization's to do likewise. What's more, by doing so, we position ourselves to jump ahead of the pack as soon as the economy does begin to turn the corner.

Any organization can cut its way to profitability in the short term, but we cannot cut our way to long term GROWTH!



John Di Frances is an internationally recognized expert on Strategic Business Issues. His professional career spans thirty years of global corporate, nonprofit, academic and government agency experience in senior executive and industry leadership positions. John advises senior executives globally and is a prominent professional speaker. Since 1983 he has served as the Managing Partner of DI FRANCES & ASSOCIATES, LLC.